

September 30, 2006
Scheduled Sunset of M2M Restructuring Tools

Issues and Answers

**A Presentation to HUD Field
Offices and PBCA's 2/22/06**

Office of Affordable Housing Preservation



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Office Timeline:

In 1997 Congress passed the MAHRA statute;

- **established the OMHAR office and**
- **granted to the Director the debt restructuring tools.**

In 2001 Congress passed the M2M Extension Act;

- **enhanced some of the restructuring tools;**
- **provided for OMHAR's Sunset in 2004; and**
- **granted to the FHA Commissioner the restructuring tools, which Sunset in 2006.**

In 2004 HUD created OAHP

- **to absorb some of OMHAR's staff;**
- **and continue the remaining M2M responsibilities.**

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OAHP's Mission:

- ***Preservation of the U.S. Affordable Housing Stock.***

Strategic Objectives:

- ***Reduce Rents to Market;***
- ***Underwrite real expenses with adequate cushion;***
- ***Maintenance of Housing Quality Standards;***
- ***Restructure Debt against new rents and expenses;***
- ***Address Immediate & Long Term Physical Needs;***
- ***Upgrade ownership/and/or management; and***
- ***Align Owner Incentives with HUD Interests***

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Quantifiable results:

- **Over 2,830 Deals Completed through 1/31/06!**
- **Over 1,420 Full Debt Restructures closed;**
- **Over 710 OMHAR-Lites completed;**
- **Over 700 Other transactions completed;**
- **Over 200,000 Units Preserved!**
- **Active Pipeline of Over 300 Properties;**
- **\$2 Billion in Net Savings to Taxpayers**

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Today's discussion concerns the *potential* impacts of the Sunset of the M2M Authorities for properties which meet the eligibility criteria of MAHRA:

- 1. FHA Insured or HUD Held first mortgage; and**
- 2. Project Based Section 8 contract; and**
- 3. Contract rents that are or were above comparable market rents.**

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Today's Discussion :

- 1. Could Congress extend the restructuring tools again?**
- 2. Since OAHP is a permanent organization why isn't the Restructuring Program permanent?**
- 3. Which properties will be most effected by the Sunset?**
- 4. What are the Critical dates for owners?**

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- 5. What happens if an owner waits until after October 1, 2006 to obtain a Rent Comp Study and finds out they are above market after Sunset?**
 - 6. If a property is bond financed and the lockout from refinancing the existing mortgage is beyond sunset, can the property enter M2M?**

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- 7. If a previously closed restructuring is part of a TPA to a QNP, how is the transfer affected by Sunset?**
- 8. How are Out-year Contracts expiring after Sunset impacted?**
- 9. If I have other questions about Sunset and it's affects on a property or group of properties, how can I get them answered?**

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- 1. Will Congress save the day again?**
Possibly, but the *realities* are:
 - **As of today, the authorities expire 9/30/06 and we must manage to that deadline;**
 - **There is currently no extension legislation on the Hill;**
 - **In 2001, we projected completion by 2006;**
 - **Some people think 8 years is long enough to afford each owner a chance at M2M;**
 - **It's prudent for HUD to plan for the Sunset as scheduled.**

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2. Shouldn't the restructuring tools be permanent?

Not necessarily. There are some Housing advocates who believe that a Sunset date is a good way of ensuring that people use or lose the tools.

The OAHP staff may be better utilized in other Housing activities rather than overseeing the runoff of a dwindling number of restructurings.

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3. The most at risk properties are:

- **Watch list properties.**
- **OAHP Lites.**
- **HAP expirations beyond Sunset which have rents above market.**

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4. Owner Critical (*no later than*) dates are:

3/31/06: Hire appraiser for renewals between
6/30-12/31/06;

If Bond financed send bond documents to
OAHP.

If a Watch list property, sign Reentry
Contract.

5/15/06: If new to OAHP and above market, ask for
budget set aside, sign Contract Renewal (*New Form
dated 2/06*) as Option 3 A or 3B.

**All projects entering M2M (Full and lite) should be given the
12 month 514 Interim Contract.**

7/1/06: Begin Restructuring transaction with PAE kick off
conference call.

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5. Expirations after Sunset with above market rents.

Section 524 of MAHRA (the only Section of MAHRA that has no Sunset date) continues to require that rents be marked to market at expiration/renewal, but the authority to concurrently restructure the underlying FHA-insured debt Sunsets.



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6. Bond Financed with a lock out.

These properties would not be eligible for early entry into M2M (no binding commitment), and would be marked down to market at the next renewal cycle after Sunset.



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- 7. TPA to Qualified Non Profit with debt forgiveness or assignment.**

Sunset does not impact 3 year Regulatory provision for TPA to QNP as long as *binding commitment* is signed by current owner and HUD prior to Sunset.

Binding Commitment is either an *Interim Full 514 Contract* or the New Contract Renewal Form, with Option 3B. New Form subject to OMB approval.

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8. Out-year Contracts and Sunset

Owners would need to sign Contract Renewal Form and Interim M2M Contract by 9/30/06.

The benefit of out year above market rents would be lost at restructuring.

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9. Contacts in OAHP on Sunset specific issues.

OAHP/HUD HQ (202) 708-0614

T.P.A. Issues: Dennis Manning ext 8381;

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Bond Issues: Claude Dickson, ext 8372;

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Referral Issues: Jennie Tucker, ext 8365;

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Other Issues: John_F._ Prusch, ext 8368;

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Hot Topics in OAHP:

- **M2M Owner Accounting Letter, and Demo Owner Accounting Letter for 2006 released**
- **Post-M2M TPAs and the “Due on Sale” clause; the Assumption or Subordination of M2M Debt**
 - **Policy is in Draft**
 - **MF Field office review of request**
 - **OAHP Loan Committee review and approval**
- **Post-Closing Portfolio Management (PCPM)**
 - **\$2 billion portfolio of M2M Notes**
 - **PCPM Contractor (RER Solutions, Inc) reviews AFS Surplus Cash calculations, works with MF PM to resolve issues**

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